

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

APPLIED ELASTOMERICS, INCORPORATED, a
California corporation,

Plaintiff,

v.

Z-MAN FISHING PRODUCTS, INCORPORATED,
a South Carolina corporation,

Defendant.

No. C 06-2469 CW

ORDER GRANTING IN
PART PLAINTIFF'S
MOTION FOR
SUMMARY JUDGMENT
AND GRANTING
DEFENDANT'S
CROSS-MOTION FOR
PARTIAL SUMMARY
JUDGMENT

AND RELATED COUNTERCLAIMS.

Plaintiff Applied Elastomerics, Inc. moves for summary judgment on several issues. Defendant Z-Man Fishing Products, Inc. opposes Plaintiff's motion and cross-moves for partial summary judgment. Plaintiff opposes Defendant's cross-motion. The matter was heard on September 20, 2007. Having considered all of the parties' papers and oral argument, the Court grants Plaintiff's motion in part and grants Defendant's motion.

BACKGROUND

Plaintiff invents and patents certain chemical compositions, composites and articles made from these compositions and composites. In particular, it holds various patents covering the formulation of thermoplastic elastomer (TPE) gels. Plaintiff commercializes its technology by licensing its patents, proprietary

1 technology and know-how to third parties. Plaintiff's president,
2 John Chen, handles all of the business aspects of commercializing
3 the technology he invents and develops.

4 Defendant develops and manufactures fishing lure components
5 and fishing lures for major lure manufacturers.

6 In April, 2001, Mike Shelton, Defendant's Vice President of
7 Marketing and Sales and Director of Technology, contacted Mr. Chen
8 concerning a fishing lure product that he was trying to develop,
9 the "superworm." In July, 2001, Mr. Chen forwarded a copy of a
10 license agreement to Mr. Shelton.

11 The license agreement is governed by California law. Under
12 the agreement, Defendant must make one of two types of royalty
13 payments on a quarterly basis: either a "running royalty," which is
14 calculated as a percentage of Defendant's net revenues from sales
15 of products using Plaintiff's technology or patents, or a "minimum
16 royalty." In exchange for these royalties, Plaintiff agreed not to
17 license the patents listed on Schedule A to any third party for the
18 purpose of manufacturing a fishing lure. Defendant had the right
19 to terminate the exclusivity provision, and its obligation to pay
20 minimum royalties, at any time upon ninety days' written notice to
21 Plaintiff.

22 The license agreement that Mr. Chen provided is fully
23 integrated. See Creason Dec., Ex. A, §10.12 ("this Agreement
24 constitutes the entire agreement between the parties with respect
25 to its subject matter and supersedes all prior agreements or
26 understandings between the parties relating to the subject
27 matter."). Section 5.7 of the agreement further provides:
28

1 In addition to the interest provision of this Section as to
2 late royalty payments, the following shall be the penalty due
3 to fraud or false statements in connection with any unpaid
4 royalties for which AEI has provided Company with notification
5 and which remain uncorrected or unpaid (with interest) under
6 this Section for more than thirty (30) days from the date of
7 such notification: A penalty of three (3) times the amount of
8 royalty underpayment due to fraud or false statements which are
unreported and unpaid falling within the term of this Agreement
which penalty shall be considered as the sole compensation and
damages for the unreported infringing sales and such sales
shall be treated as infringing sales in accordance with 35
U.S.C. § 284. Company shall also pay any reasonable attorney
fees and expenses incurred by AEI as a result of such fraud or
false statements and misrepresentations.

9 Creason Dec., Ex. A.

10 Also relevant to Plaintiff's motion is section 9.2(a), which
11 provides: "If the parties fail to resolve the dispute through
12 mediation, or if neither party elects to initiate mediation, each
13 party shall have the right to pursue any other remedies legally
14 available to resolve the dispute, provided, however, that the
15 parties expressly waive any right to a jury trial." Id.

16 On July 24, 2001, Mr. Shelton signed the agreement. In
17 addition, Myrna Wahoup, formerly Defendant's Vice President and
18 Secretary, signed the agreement. According to Mr. Shelton, either
19 the day he signed the agreement or the next day, he called Mr.
20 Chen. Mr. Shelton told Mr. Chen that he did not have a problem
21 signing the agreement "as long as [they] were under the
22 understanding that [they] would change the royalty amount" to
23 reflect amounts that they had been discussing. Creason Dec., Ex. G
24 at 73:3-7. Mr. Shelton states that Mr. Chen responded, "No
25 problem." Id. at 73:7-12. Mr. Chen acknowledges that Mr. Shelton
26 called him on July 24, 2001 or the day after. According to Mr.
27 Chen, Mr. Shelton told him that the agreement was signed and
28

1 executed, but that he wanted to talk about making a modification to
2 the agreement; however, Mr. Chen could not recall whether it was
3 the minimum royalty numbers that Mr. Shelton wanted to modify. Mr.
4 Chen states that he told Mr. Shelton that "it's not difficult to
5 make modification to the agreement" and that "we'll execute an
6 amendment and make the changes." Cleason Dec., Ex. F at 179:11-14.

7 On July 25, 2001, Mr. Shelton mailed the signed agreement back
8 to Mr. Chen. Along with the agreement was a memorandum regarding
9 "License Agreement & Changes" and a page containing sales
10 projections and royalties. The memorandum stated:

11 Enclosed you will find the signed "License Agreement."
12 Attached are the changes in the sales forecast and royalty
13 numbers. As we agreed you lists [sic] the changes as
14 amendments to the original agreement. We did not discuss "B"
15 but it is my understanding that the way it is written this
16 covers any and all fishing lures made from your patented
17 formula. If I am incorrect in my assumption please advise and
18 we will discuss.

19 Creason Dec., Ex. B.

20 Mr. Chen states that he called Mr. Shelton on the day he
21 received the signed agreement, memorandum and its attachment.
22 Mr. Chen informed Mr. Shelton that the attachment was a
23 hypothetical forecast and that he was "not going to go along with
24 making any changes based on a forecast"; Mr. Chen refused to make a
25 modification to the agreement. Cleason Dec., Ex. F at 194:14-6.
26 Mr. Shelton denies that this conversation took place.

27 After Mr. Shelton signed the agreement, Defendant moved
28 forward in developing a new fishing lure. Plaintiff provided
formulations to Defendant to assist in the development of the lure.
In particular, Mr. Chen sent formulations to, and worked closely

1 with, Don Rawlins, of Color Technologies, a firm Defendant used to
2 manufacture its fishing lures. According to Mr. Shelton,
3 "Everything was going good" and the new lure "performed extremely
4 well during a test." Cleason Dec., Ex. G at 76:15-20.

5 In March, 2002, Defendant sent Plaintiff a document entitled
6 "Amendment Number 1 to Patent License Agreement." See Graber Dec.
7 Ex. D. Although the amendment was dated "March __, 2002," it
8 designated April 26, 2001 as the effective date; April 26, 2001 was
9 the effective date of the license agreement. The amendment would
10 change the minimum royalty schedule in the license agreement to
11 match the lower minimum royalty schedule contained in the
12 memorandum that Mr. Shelton sent with the license agreement. Mr.
13 Shelton states that he sent the amendment because he and Mr. Chen
14 had agreed on these numbers, but Mr. Chen had not taken any action
15 on changing the original license agreement as they had discussed.
16 Plaintiff never signed the amendment.

17 In July, 2002, Plaintiff filed four patent applications for
18 technology relating to fishing lures. The applications were
19 approved and the Patent and Trademark Office issued four patents,
20 listing Mr. Chen as the inventor and Plaintiff as the assignee.
21 See U.S. Patent Nos. 6,794,440 (the '440 patent); 7,108,873 (the
22 '873 patent); 7,134,236 (the '236 patent); and 7,208,184 (the '184
23 patent) (AEI fishing lure patents).

24 According to Defendant's expert, Dalbert U. Shefte, the
25 material claim limitations recited in AEI fishing lure patents
26 include (1) fishing lure being life-like, soft, flexible and
27 capable of exhibiting buoyancy in water; (2) fishing lure being
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1 rupture resistant to dynamic stretching and shearing, resistant to
2 ball-up during casting, and resistant to tearing encountered during
3 hook penetration, casting, and presentation; (3) fishing lure
4 capable of exhibiting a hook-to-catch ratio greater than five; (4)
5 fishing lure having greater elongation, greater tear resistance, or
6 greater fatigue resistance than a conventional plastisol polyvinyl
7 chloride of corresponding rigidity; (5) fishing lure resistant to
8 tearing encountered during hook penetration followed by elongation
9 to 200% as compared to a conventional plastisol polyvinyl chloride
10 fishing bait of corresponding rigidity; and (6) one or more
11 foodstuffs selected from animal foodstuff, vegetable foodstuff and
12 microbiological foodstuff.

13 Defendant contends that Mr. Shelton contributed to the
14 conception of the AEI fishing lure patents by conceiving of
15 material claim limitations in the patents and communicating them to
16 Mr. Chin. It claims that Mr. Shelton is thus a co-inventor and
17 should be listed as such on the patents. In particular, Mr.
18 Shelton states that he provided Mr. Chen:

19 with knowledge and information about the fishing industry,
20 also about the product line, about how--how flotation is an
21 advantage, how elongation is an advantage, how tear strength
22 is an advantage, how hook-to-set ratio is an advantage, how
23 the durability of the product is an advantage where the
24 customer will buy, you know, a bag of TPE products and catch
25 30, 40 fish per bag where he'd buy a bag of plastic products
26 and catch five to six fish a bag.

27 Graber Dec., Ex. A at 129:16-24. In addition, Mr. Sheldon claims
28 that he recommended that scent or flavors and oil be added to bait
and that he provided Mr. Chen with drawings of various fishing
lures. In addition, Mr. Sheldon claims to have tested the various

1 inventions; Mr. Chen has not fished for thirty years.

2 From late 2002 through early 2004, Defendant made royalty
3 payments to Plaintiff. In 2004, Defendant stopped paying
4 royalties. Defendant contends that, on August 24, 2004, it
5 terminated the minimum royalty provision.

6 In 2006, Plaintiff brought this suit for breach of contract
7 and breach of the covenant of good faith and fair dealing.
8 Plaintiff seeks to recover the minimum royalties it alleges it is
9 owed under the agreement; it does not seek to recover any running
10 royalties. In addition, it alleges that, pursuant to section 5.7
11 of the agreement, the amount it is owed is subject to trebling
12 because Defendant's failure to pay the minimum royalties was based
13 on its false statements that it did not owe the minimum royalties.
14 Defendant filed numerous counterclaims and a suit against Plaintiff
15 in South Carolina. Almost all of Defendant's counterclaims were
16 dismissed or withdrawn. The South Carolina action was transferred
17 to this Court and consolidated with this action. Defendant's
18 remaining counterclaims are for co-inventorship and unjust
19 enrichment. Defendant also asserts twelve affirmative defenses,
20 including a breach of the covenant of good faith and fair dealing,
21 negligent misrepresentation and a request for offset of the
22 royalties previously paid under the license agreement.

23 LEGAL STANDARD

24 Summary judgment is properly granted when no genuine and
25 disputed issues of material fact remain, and when, viewing the
26 evidence most favorably to the non-moving party, the movant is
27 clearly entitled to prevail as a matter of law. Fed. R. Civ.

1 P. 56; Celotex Corp. v. Catrett, 477 U.S. 317, 322-23 (1986);
2 Eisenberg v. Ins. Co. of N. Am., 815 F.2d 1285, 1288-89 (9th Cir.
3 1987).

4 The moving party bears the burden of showing that there is no
5 material factual dispute. Therefore, the court must regard as true
6 the opposing party's evidence, if supported by affidavits or other
7 evidentiary material. Celotex, 477 U.S. at 324; Eisenberg, 815
8 F.2d at 1289. The court must draw all reasonable inferences in
9 favor of the party against whom summary judgment is sought.

10 Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574,
11 587 (1986); Intel Corp. v. Hartford Accident & Indem. Co., 952 F.2d
12 1551, 1558 (9th Cir. 1991).

13 Material facts which would preclude entry of summary judgment
14 are those which, under applicable substantive law, may affect the
15 outcome of the case. The substantive law will identify which facts
16 are material. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248
17 (1986).

18 Where the moving party does not bear the burden of proof on an
19 issue at trial, the moving party may discharge its burden of
20 production by either of two methods. Nissan Fire & Marine Ins.
21 Co., Ltd., v. Fritz Cos., Inc., 210 F.3d 1099, 1106 (9th Cir.
22 2000).

23 The moving party may produce evidence negating an
24 essential element of the nonmoving party's case, or,
25 after suitable discovery, the moving party may show that
26 the nonmoving party does not have enough evidence of an
27 essential element of its claim or defense to carry its
28 ultimate burden of persuasion at trial.

Id.

1 If the moving party discharges its burden by showing an
2 absence of evidence to support an essential element of a claim or
3 defense, it is not required to produce evidence showing the absence
4 of a material fact on such issues, or to support its motion with
5 evidence negating the non-moving party's claim. Id.; see also
6 Lujan v. Nat'l Wildlife Fed'n, 497 U.S. 871, 885 (1990); Bhan v.
7 NME Hosps., Inc., 929 F.2d 1404, 1409 (9th Cir. 1991). If the
8 moving party shows an absence of evidence to support the non-moving
9 party's case, the burden then shifts to the non-moving party to
10 produce "specific evidence, through affidavits or admissible
11 discovery material, to show that the dispute exists." Bhan, 929
12 F.2d at 1409.

13 If the moving party discharges its burden by negating an
14 essential element of the non-moving party's claim or defense, it
15 must produce affirmative evidence of such negation. Nissan, 210
16 F.3d at 1105. If the moving party produces such evidence, the
17 burden then shifts to the non-moving party to produce specific
18 evidence to show that a dispute of material fact exists. Id.

19 If the moving party does not meet its initial burden of
20 production by either method, the non-moving party is under no
21 obligation to offer any evidence in support of its opposition. Id.
22 This is true even though the non-moving party bears the ultimate
23 burden of persuasion at trial. Id. at 1107.

24 Where the moving party bears the burden of proof on an issue
25 at trial, it must, in order to discharge its burden of showing that
26 no genuine issue of material fact remains, make a prima facie
27 showing in support of its position on that issue. UA Local 343 v.

1 Nor-Cal Plumbing, Inc., 48 F.3d 1465, 1471 (9th Cir. 1994). That
2 is, the moving party must present evidence that, if uncontroverted
3 at trial, would entitle it to prevail on that issue. Id.; see also
4 Int'l Shortstop, Inc. v. Rally's, Inc., 939 F.2d 1257, 1264-65 (5th
5 Cir. 1991). Once it has done so, the non-moving party must set
6 forth specific facts controverting the moving party's prima facie
7 case. UA Local 343, 48 F.3d at 1471. The non-moving party's
8 "burden of contradicting [the moving party's] evidence is not
9 negligible." Id. This standard does not change merely because
10 resolution of the relevant issue is "highly fact specific." Id.

11 DISCUSSION

12 I. Plaintiff's Motion

13 Plaintiff moves for summary judgment in its favor on several
14 issues: Defendant's tenth affirmative defense for an offset of
15 royalties Defendant paid to Plaintiff; Defendant's counterclaim for
16 co-inventorship; and Defendant's counterclaim for unjust
17 enrichment. In addition, it moves for an adjudication that section
18 4.6 of the License Agreement is the applicable minimum royalty
19 schedule and an order that all issues will be tried to the Court.

20 A. Offset for royalties paid

21 In its tenth affirmative defense, Defendant contends that any
22 award of damages to Plaintiff must be offset by sums received by
23 Plaintiff. Specifically, Defendant argues that it is entitled to
24 recover the royalties it paid under the agreement because the
25 licensed patents are invalid and the products Defendant sold were
26 not covered by the licensed patents. Plaintiff contends that
27 Defendant's offset argument fails as a matter of law.

1 "It is well settled law that a determination that a patent
2 which is the subject matter of a License Agreement is invalid does
3 not entitle the licensee to recoup royalties already paid." Wang
4 Labs., Inc. v. Ma Labs., Inc., 1995 WL 729298, at *11 (N.D. Cal.);
5 see also Bristol Locknut Co. v. SPS Techs., Inc., 677 F.2d 1277
6 (9th Cir. 1982). As explained in St. Regis Paper Co. v. Royal
7 Industries, 552 F.2d 309, 314 (9th Cir. 1977), this rule is founded
8 upon policy considerations:

9 The possibility of obtaining a refund of all royalties
10 paid might induce a manufacturer to accept a license
11 based on a patent of doubtful validity, derive the
12 benefits of suppressed competition which the patent
13 affords, and challenge validity only after the patent's
14 expiration. The licensee would have a chance to regain
15 all the royalties paid while having enjoyed the fruits of
16 the license agreement.

17 This rationale applies equally to a licensee's ability to recoup or
18 offset past royalties if the products made under the license
19 agreement are later determined to be non-infringing. Wang, 1995 WL
20 729298 at *11. This is especially true here, where Defendant held
21 the exclusive right to market products it held out as covered by
22 Plaintiff's patents.

23 Defendant acknowledges that recouping past royalties is
24 generally not permitted by federal law. It argues nonetheless that
25 Plaintiff's motion attacking its offset defense should be denied
26 because of certain language in the license agreement.

27 The license agreement provides, "In the event any Licensed
28 Product is manufactured, directly or indirectly, solely using AEI
Technology, but without the protection of any valid Licensed
Patents in a given country covered by a license granted under this

1 License Agreement, the royalty rate shall be Three percent (3%) for
2 Licensed Product." Creason Dec., Ex. A at § 4.2(c). Defendant
3 fails to explain why this language warrants an exception to the
4 general prohibition against the recovery of previously paid
5 royalties on the grounds of invalidity or non-infringement. Like
6 the license agreement in Wang, the agreement here provides that
7 there is no warranty or representation regarding the validity or
8 scope of the patent rights. Thus, Defendant, like the defendant in
9 Wang, "assumed the risk" that Plaintiff's patents "might, at some
10 future date, be found not to include the licensed products" or
11 might be found invalid. Wang, 1995 WL 729298 at *12.

12 The Court concludes that Defendant would not be entitled to
13 offset its royalty payments if Plaintiff's patents were found to be
14 invalid or if Defendant's products were found not to be covered by
15 the patents. Plaintiff's motion for partial summary judgment on
16 Defendant's tenth affirmative defense is granted.

17 B. Co-inventorship counterclaims

18 As noted above, Defendant asserts a counterclaim under 35
19 U.S.C. § 256 for co-inventorship, arguing that the AEI fishing lure
20 patents erroneously fail to name Mr. Shelton as a co-inventor.
21 Section 256 provides that a co-inventor omitted from an issued
22 patent may be added to the patent; it provides a means for
23 correcting inventorship. Plaintiff charges Defendant with failing
24 to offer any evidence that could establish a cause of action under
25 section 256 and, thus, it argues that Defendant's counterclaims for
26 co-inventorship fail as a matter of law. Defendant responds that
27 genuine issues of material fact exist, precluding summary judgment.

1 The Federal Circuit has explained that a "patented invention
2 may be the work of two or more joint inventors." Ethicon, Inc. v.
3 U.S. Surgical Corp., 135 F.3d 1456, 1460 (Fed. Cir. 1998) (citing
4 35 U.S.C. § 116). Each joint inventor, however, "must generally
5 contribute to the conception of the invention," id., because
6 inventorship "arises from conception, not development or reduction
7 to practice." PerSeptive Biosystems, Inc. v. Pharmacia Biotech,
8 Inc., 225 F.3d 1315, 1324 (Fed. Cir. 2000); Burroughs Wellcome Co.
9 v. Barr Labs., Inc., 40 F.3d 1223, 1227-28 (Fed. Cir. 1994)
10 ("Conception is the touchstone of inventorship, the completion of
11 the mental part of invention."). As explained in Hybritech, Inc.
12 v. Monoclonal Antibodies, Inc., 802 F.2d 1367, 1376 (Fed. Cir.
13 1986), "Conception is the 'formation in the mind of the inventor,
14 of a definite and permanent idea of the complete and operative
15 invention, as it is hereafter to be applied in practice.'"
16 "Conception is complete when one of ordinary skill in the art could
17 construct the apparatus without unduly extensive research or
18 experimentation." Sewall v. Walters, 21 F.3d 411, 415 (Fed. Cir.
19 1994).

20 Each joint inventor need not "make the same type or amount of
21 contribution" to the invention and co-inventors need not
22 "physically work together or at the same time." 35 U.S.C. § 116;
23 Trovan Ltd. v. Sokymat Sa, Irori, 299 F.3d 1292, 1302 (Fed. Cir.
24 2002). Nor need a co-inventor make a contribution to every claim
25 of a patent; a "contribution to one claim is enough." Ethicon, 135
26 F.3d at 1461. But the co-inventor must perform at least "a part of
27 the task which produces the invention" and must have "conceived, as
28

1 that term is used in the patent law, the subject matter of the
2 claims at issue." Id. at 1460-61. One does not qualify as a co-
3 inventor by merely providing the inventor with well-known
4 principles or by explaining "the state of the art without ever
5 having 'a firm and definite idea' of the claimed combination as a
6 whole." Id. at 1460 (quoting Hess v. Advanced Cardiovascular
7 Systems, Inc., 106 F.3d 976, 981 (Fed. Cir. 1997)). See also
8 Trovan, 299 F.3d at 1302 (explaining that "the basic exercise of
9 ordinary skill in the art, without an inventive act, does not make
10 one a joint inventor"). Indeed, an inventor "may use the services,
11 ideas, and aid of others in the process of perfecting his invention
12 without losing his right to a patent." Shatterproof Glass Corp. v.
13 Libbey-Owens Ford Co., 758 F.2d 613, 624 (Fed. Cir. 1985).

14 To establish co-inventorship, the alleged co-inventor must
15 prove his or her contribution to the conception of the claims by
16 clear and convincing evidence. Ethicon, 135 F.3d at 1461. The
17 alleged co-inventor's testimony "cannot, standing alone, rise to
18 the level of clear and convincing proof." Price, 988 F.2d at 1194.
19 Rather, an alleged co-inventor must provide evidence to corroborate
20 his or her testimony. Ethicon, 135 F.3d at 1461. Whether the
21 alleged co-inventor's testimony has been sufficiently corroborated
22 is evaluated under a "rule of reason" analysis, which requires that
23 an "'evaluation of all pertinent evidence must be made so that a
24 sound determination of the credibility of the [alleged] inventor's
25 story may be reached.'" Id. (quoting Price, 988 F.2d at 1195
26 (alterations in original)). Corroborating evidence may take many
27 forms, including contemporaneous documents prepared by a putative
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1 inventor, circumstantial evidence about the inventive process and
2 oral testimony of someone other than the alleged inventor. Id.

3 The Federal Circuit instructs that "inventorship is determined
4 on a claim-by-claim basis." Trovan, 299 F.3d at 1302. An
5 inventorship analysis "begins as a first step with a construction
6 of each asserted claim to determine the subject matter encompassed
7 thereby." Id. The next step is "to compare the alleged
8 contributions of each asserted co-inventor with the subject matter
9 of the properly construed claim to then determine whether the
10 correct inventors were named." Id.

11 In construing claims, the Court looks first to the words of
12 the claim. Id. at 1305. The words of the claims of AEI fishing
13 lure patents are clear and not subject to more than one meaning.
14 Indeed, the only term disputed by the parties is "selected shape,"
15 which is used in every claim of the '184 patent. Plaintiff
16 contends that the term "selected shape" does not limit or relate
17 the claims to any drawings. According to Plaintiff, "selected
18 shape" is any shape selected by a person skilled in the art who is
19 practicing the patent. The '184 patent states that the drawings
20 "are representative of fishing bait shapes." '184 patent at col.
21 11.

22 Defendant contends that "selected shape" means those shapes
23 shown in the drawings found in the patent specification, and
24 provided by Mr. Shelton. See Playtex Products, Inc. v. Procter &
25 Gamble Co., 400 F.3d 901, 909 (Fed. Cir. 2005) (finding that, in
26 some circumstances, patent illustrations can support the
27 construction of a claim term). It is correct that the term

1 "selected" may have a specific meaning. See Innova/Pure Water,
2 Inc. v. Safari Water Filtration Sys., 381 F.3d 1111, 1119 (Fed.
3 Cir. 2004) ("While not an absolute rule, all claim terms are
4 presumed to have meaning in a claim."). But the Court is not
5 persuaded that "selected" refers to those shapes provided in the
6 drawings in the specification. Defendant correctly notes that "the
7 specification is the single best guide to the meaning of a disputed
8 term." Phillips v. AWH Corp., 415 F.3d 1303, 1321 (Fed. Cir.
9 2005). Here, the specification provides that the drawings are only
10 "representations"; it does not provide that they are the selected
11 shapes, nor are the claims limited to the shapes provided in the
12 drawings. Therefore, the Court concludes that Plaintiff's
13 construction, i.e., "selected shape" is any shape selected by a
14 person skilled in the art who is practicing the patent, is the
15 proper construction.

16 Mr. Shelton claims that two contributions he made, in addition
17 to the "selected shapes," concerned incorporating food particles
18 into fishing lures and the characteristics of buoyancy, tear
19 resistance, set-to-catch ratio, elongation and softness. These
20 contributions to the inventions do not constitute the conception
21 necessary to establish co-inventorship. Mr. Shelton contributed
22 only "well-known principles." He acknowledges that the idea of
23 adding scents to fishing lures was "very common knowledge to
24 anybody in the fishing industry." Graber Dec., Ex. A at 133:25-
25 34:1. Further, it is not disputed that Mr. Chen could have learned
26 about the desirability of buoyancy, tear resistance, high set-to-
27 catch ration, elongation and softness "by just talking to someone
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1 in the fishing industry." Graber Supp. Dec., Ex. 1 at 70:12-25.
2 As noted above, an inventor does not lose his right to a patent
3 merely by using the service, ideas and aid of others in the process
4 of perfecting his invention. Shatterproof Glass Corp., 758 F.2d at
5 624.

6 Defendant also fails to provide corroboration for Mr.
7 Shelton's testimony that he assisted in the conception of other
8 claims of AEI fishing lure patents. The only evidence Defendant
9 presents to corroborate its co-inventorship claim is the
10 declaration of Ms. Wahoup. She states only that, at various times,
11 including during 2002, she "witnessed conversations between Mike
12 Shelton and John Chen," including "communications from Mr. Shelton
13 describing and explaining essential characteristics of soft fishing
14 lures of the types utilized by Z-Man." Creason Dec., Ex. L. She
15 does not identify the claims to which Mr. Shelton allegedly
16 contributed. Defendant argues that, at this point in the
17 litigation, it is not required to present all of the factual
18 evidence of corroboration that it will present at trial. While
19 this may be true, Defendant is required to present enough evidence
20 to show that there is a material dispute of fact concerning whether
21 it can show by clear and convincing corroborated evidence that Mr.
22 Shelton is a co-inventor of AEI fishing lure patents. It does not.

23 The Court grants summary judgment in favor of Plaintiff of
24 this issue as well.

25 C. Unjust enrichment counterclaim

26 Defendant's counterclaim for unjust enrichment is premised on
27 the theory that no contract was ever formed between the parties.

1 Defendant argues that Mr. Shelton's July 25, 2001 memo sent with
2 the signed license agreement constituted a counter-offer that was
3 never accepted. Plaintiff, however, contends that the facts
4 unequivocally establish that the parties entered into the license
5 agreement.

6 Plaintiff argues that the fact that Defendant concedes that
7 its representatives signed the agreement ends the inquiry. The
8 California Supreme Court instructs, "The general rule is that when
9 a person with the capacity of reading and understanding an
10 instrument signs it, he is, in the absence of fraud and imposition,
11 bound by its contents, and is estopped from saying that its
12 provisions are contrary to his intentions or understanding."
13 Jefferson v. Cal. Dept. of Youth Authority, 28 Cal. 4th 299, 303
14 (2002) (citation and inner quotations omitted). California law
15 further provides that "performance of the conditions of a proposal,
16 or the acceptance of the consideration offered with a proposal, is
17 an acceptance of the proposal." Cal. Civ. Code § 1584. Here,
18 there is no dispute that Defendant accepted Plaintiff's assistance
19 in developing its product and that it made payments under the
20 license agreement. Had Defendant believed there was no contract
21 between it and Plaintiff, but only an unaccepted counter-offer, it
22 would not have performed under the contract, nor expected Plaintiff
23 to do so.

24 Plaintiff points out that Defendant also admitted that it
25 entered into the agreement in its "Amendment Number 1 to Patent
26 License Agreement." See Graber Dec. Ex. D. The amendment states
27 that "AEI and company entered into that certain Patent License
28

1 Agreement with an effective date of April 26, 2001." Id. In
2 addition, Plaintiff notes that Defendant admitted in its Answer,
3 Counter-Complaint and Jury Demand that it entered into the
4 agreement. This admission still carries weight, even though
5 Defendant later amended its answer and revoked its admission.

6 Defendant concedes that it paid royalties, but it points out
7 that its royalty payments were consistent with the license
8 agreement and with the allegedly agreed upon lower minimum royalty
9 schedule included with Mr. Shelton's July 25, 2001 memorandum to
10 Mr. Chen. Defendant contends that Amendment Number 1 was merely a
11 document containing the terms to which AEI had earlier agreed and
12 that nothing should be made of the fact that it is labeled an
13 "amendment." These arguments are not persuasive.

14 Because Defendant's representatives signed the license
15 agreement and then sent the executed agreement back to Plaintiff,
16 and virtually all of the other evidence indicates that a contract
17 was formed between the parties, Defendant's counterclaim for unjust
18 enrichment fails as a matter of law. The Court grants summary
19 judgment in favor of Plaintiff on this ground.

20 D. Minimum royalty schedule

21 Defendant asserts that, if the parties did enter into a
22 contract, the lower royalty schedule included in the July 25, 2001
23 memorandum is the applicable royalty schedule. Plaintiff contends
24 that this theory fails as a matter of law and that section 4.6 of
25 the agreement sets forth the applicable minimum royalties. It
26 argues that the alternative royalty schedule provided in the July
27 25, 2001 memorandum contradicts the schedule set forth in the

1 parties' integrated contract.

2 As noted above, the agreement here is integrated. California
3 law provides, "Terms set forth in a writing intended by the parties
4 as a final expression of their agreement with respect to such terms
5 as are included therein may not be contradicted by evidence of any
6 prior agreement or of a contemporaneous oral agreement." Cal. Civ.
7 Proc. § 1856. See also Casa Herrera, Inc. v. Beydoun, 32 Cal. 4th
8 336, 344 (2004) ("The parol evidence rule therefore establishes
9 that the terms contained in an integrated written agreement may not
10 be contradicted by prior or contemporaneous agreements. . . . the
11 rule necessarily bars consideration of extrinsic evidence of prior
12 or contemporaneous negotiations or agreements at variance with the
13 written agreement.").

14 Defendant does not argue that the parol evidence rule would
15 not apply to the July 25, 2001 memorandum; it argues instead that
16 Plaintiff's reliance on the parol evidence rule is misplaced
17 because there is a dispute of fact regarding whether there is a
18 contract and the terms of the contract, if any. Again, however,
19 the Court has concluded that there is no genuine dispute of fact
20 concerning whether there is a contract. The minimum royalty
21 schedule contained in the July 25, 2001 memorandum was a
22 contemporaneous communication that may not be used to contradict
23 the terms of the integrated contract. Accordingly, those terms
24 will govern the parties' contract-based claims.

25 E. Court trial or jury trial

26 The right to a jury trial in federal court is governed by
27 federal law and, under federal law, parties may contractually waive
28

1 their right to a jury trial. Telum, Inc. v. E.F. Hutton Credit
2 Corp., 859 F.2d 835, 837 (10th Cir. 1988). As explained in Okura &
3 Co., Inc. v. Careau Group, 783 F. Supp. 482, 488 (C.D. Cal. 1991),
4 "While the right to civil jury trial is a fundamental
5 constitutional right, it may be waived by a contract knowingly and
6 voluntarily executed." Plaintiff contends that Defendant waived
7 its right to a jury. As noted above, the agreement provides "that
8 the parties expressly waive any right to a jury trial."

9 Defendant contends that no contract with a jury waiver
10 provision was formed. It argues that Plaintiff cannot rely on a
11 jury trial waiver when there are material questions of fact
12 concerning whether the contract containing that waiver was formed.
13 But as discussed above, the Court finds that no such material
14 questions of fact exist. A contract was in fact formed, and the
15 parties' contract-based claims are therefore covered by the jury
16 waiver clause in the license agreement. These claims will be tried
17 to the Court, not to a jury.

18 II. Defendant's Motion

19 Defendant seeks partial summary judgment in its favor that
20 Plaintiff cannot recover a trebling penalty under the agreement.
21 Defendant argues that this is a contractual penalty, unenforceable
22 under California law, and further that it applies only to "running"
23 or sales-based royalties, which are not at issue here.

24 A. Contractual Penalty

25 California law prohibits enforcement of contractual penalties.
26 Ridgely v. Topa Thrift and Loan Assoc., 17 Cal. 4th 970, 977
27 (1998). Liquidated damages clauses, however, are enforceable, as

1 long as they are reasonable. Cal. Civ. § 1671(b) ("a provision in
2 a contract liquidating the damages for the breach of the contract
3 is valid unless the party seeking to invalidate the provision
4 establishes that the provision was unreasonable under the
5 circumstances existing at the time the contract was made"). In
6 Ridgley, the California Supreme Court instructed,

7 A liquidated damages clause will generally be considered
8 unreasonable, and hence unenforceable under section 1671(b),
9 if it bears no reasonable relationship to the range of actual
10 damages that the parties could have anticipated would flow
11 from a breach. The amount set as liquidated damages must
12 represent the result of a reasonable endeavor by the parties
13 to estimate a fair average compensation for any loss that may
14 be sustained. In the absence of such relationship, a
15 contractual clause purporting to predetermine damages must be
16 construed as a penalty.

17 Cal. 4th at 977 (citations and inner quotations omitted). Other
18 factors to consider are "the relative equality of the bargaining
19 power of the parties, whether the parties were represented by
20 lawyers at the time the contract was made, the anticipation of the
21 parties that proof of actual damages would be costly or
22 inconvenient, the difficulty of proving causation and
23 foreseeability, and whether the liquidated damages provision is
24 included in a form contract." Weber, Lipshie & Co. v. Christian,
25 52 Cal. App. 4th 645, 654-55 (1997).

26 Defendant first points out that the license agreement refers
27 to a "penalty," not to liquidated damages. Whether the contract
28 uses the term "penalty" or "liquidated damages," however, is not
determinative. As explained in Weber, "A court will interpret a
liquidated damages clause according to its substance, and if it is
otherwise valid, will uphold it even if the parties have referred

1 to it as a penalty." Id. at 656.

2 Defendant also contends that the trebling provision in section
3 5.7 does not represent the result of a reasonable endeavor by the
4 parties to estimate a fair compensation for any loss that may be
5 sustained. Defendant points out that in Harbor Island Holdings v.
6 Kim, 107 Cal. App. 4th 790, 796 (2003), the court concluded that a
7 contract provision that, "in the event of breach, any breach, the
8 rent would more than triple," lacked the necessary proportional
9 relation to the damages which may actually flow from the failure to
10 perform under the contract; therefore, the provision was a penalty
11 and was not enforceable. It argues that the only purpose of
12 section 5.7 is to penalize. Indeed, section 5.7 first requires
13 that Plaintiff determine the "amount of royalty underpayment due to
14 fraud or false statement" and then triple that amount and add
15 attorneys' fees and expenses.

16 Plaintiff responds that Defendant has not met its burden to
17 demonstrate that section 5.7 is unreasonable. It accuses Defendant
18 of presenting no evidence other than the agreement itself. The
19 agreement itself, however, can be sufficient to show that it
20 contains contractual penalties and not liquidated damages.

21 Plaintiff also argues that section 5.7 is a permissible
22 liquidated damages clause. It points out that Defendant was
23 represented by in-house counsel and that the contract was
24 negotiated by the parties and is not a form contract. It argues
25 that the damages here are uncertain. This argument, however, is
26 not persuasive. As discussed above, the agreement requires that
27 the party compute the amount of royalty underpayment, which is the

1 damage, and then triple it.

2 Plaintiff's reliance on 35 U.S.C. § 284, the section of the
3 patent code that allows a court to increase the damages up to three
4 times the amount of the compensatory damages, is also misplaced.
5 Treble damages and attorneys' fees are available in infringement
6 cases; at issue is an agreement licensing Plaintiff's patents.
7 Section 5.7 of the contract cites section 284 of title 55. But
8 potential treble damages are not part of a parties' actual damages:
9 "The purpose of an enhanced damages award is punitive, and is meant
10 to punish behavior, such as willful infringement, that is properly
11 characterized as 'reprehensible' or 'egregious.'" Applera Corp. v.
12 MJ Research Inc., 372 F. Supp. 2d 233, 235 (D. Conn. 2005).

13 The Court concludes that the treble damages portion of section
14 5.7 does not represent the result of a reasonable endeavor by the
15 parties to estimate a fair compensation for any loss that may be
16 sustained; it bears no reasonable relationship to the range of
17 actual damages that the parties could have anticipated would flow
18 from a royalty underpayment due to fraud or false statements. It
19 is a contractual penalty, not liquidated damages. The Court grants
20 partial summary judgment in favor of Defendant on this ground.

21 B. Running and Minimum Royalties

22 Defendant further argues that partial summary judgment should
23 be granted in its favor on the ground that the portions of section
24 5.7 providing for trebling, attorneys' fees and expenses do not
25 apply to minimum royalties, the only royalties at issue. It
26 argues, as it argued in its motion for judgment on the pleadings,
27 that the "fraud or false statements" trigger for the trebling
28

1 provision applies only to fraud or false statements by the licensee
2 regarding "running," or sales-based, royalties. Defendant contends
3 that this is the only possible interpretation of the clause because
4 sales, whether infringing or not, are not relevant to the
5 calculation of minimum royalties: "A penalty of three (3) times the
6 amount of royalty underpayment due to fraud or false statements
7 which are unreported and unpaid falling within the term of this
8 Agreement which penalty shall be considered as the sole
9 compensation and damages for the unreported infringing sales."

10 Plaintiff, however, emphasizes the phrase "with any unpaid
11 royalties." Plaintiff argues that the only way to interpret this
12 section is to find that the trebling provision applies to any
13 unpaid royalties, which includes both minimum and running
14 royalties. The Court denied Defendant's motion for judgment on the
15 pleadings, holding that, even if Defendant is correct that the
16 language of the contract supports its interpretation, the Ninth
17 Circuit requires that the Court give Plaintiff an opportunity to
18 present extrinsic evidence as to the intention of the parties in
19 drafting the contract. Plaintiff contends that the extrinsic
20 evidence supports its interpretation. Mr. Chen did not tell
21 Defendant that this provision only applied to sales. Mr. Chen
22 testified that he "did not mention sales." Graber Supp. Dec., Ex.
23 4 at 100:15. He stated, "I was not specific as to sale versus any
24 particular type of royalty. It was just cash, money . . . that's
25 the reason we put it here, to cover all monies owed." Id. at
26 100:15-23. Mr. Chen further testified that he discussed with
27 Defendant that it might have to pay three times the amount owed: "I
28

1 pointed it out to them because I don't want them to be surprised
2 not having seen this, and we discussed it at meeting." Id. at
3 95:19-25.

4 Notwithstanding Mr. Chen's testimony, the wording of the
5 trebling portion of section 5.7 clearly contemplates the
6 possibility of the licensee fraudulently under-reporting sales, a
7 situation that would alter only the amount of running royalties
8 owed. Even if Mr. Chen intended the trebling provision to apply to
9 underpayment of minimum royalties as well, he did not clearly
10 communicate this intention to Defendant. His testimony about his
11 conversation with Defendant provides no indication that the parties
12 intended the provision to apply to both minimum and running
13 royalties. Absent such an indication of the parties' intent, the
14 language of the contract governs.

15 Accordingly, the Court finds that the trebling provision does
16 not apply to underpayment of minimum royalties. In addition, the
17 attorneys' fees and expenses provision in section 5.7 explicitly
18 covers only such fees and expenses incurred as a result of the
19 "fraud or false statements" that lead to under-reporting of sales.
20 Thus, the Court finds that this portion of section 5.7 also does
21 not apply to underpayment of minimum royalties.

22 CONCLUSION

23 For the foregoing reasons, Plaintiff's motion for summary
24 judgment (Docket No. 150) is GRANTED IN PART and DENIED IN PART.
25 Specifically, Plaintiff's motion for partial summary judgment on
26 Defendant's tenth affirmative defense is granted: Defendant will
27 not be entitled to an offset for its running royalty payments if
28

1 Plaintiff's patents are found to be invalid or if Defendant's
2 products are found not to be covered by the patents. Summary
3 judgment in Plaintiff's favor is also granted as to Defendant's co-
4 inventorship counterclaims. Because, as a matter of law, a
5 contract was formed between the parties, Defendant's counterclaim
6 for unjust enrichment fails and the Court also grants summary
7 judgment in favor of Plaintiff on this ground. The parties'
8 contract-based claims will be governed by the minimum royalty
9 schedule contained in the integrated license agreement. These
10 claims are also covered by the jury waiver clause in the license
11 agreement; thus, any contract-based claims not resolved on summary
12 judgment will be tried before the Court, not before a jury.
13 Defendant's cross-motion for partial summary judgment (Docket
14 No. 162) is GRANTED. Because the trebling provision in section 5.7
15 is a contractual penalty, it is not enforceable. Even if it were,
16 as a matter of contract interpretation, neither it nor the
17 provision concerning attorneys' fees and expenses applies to unpaid
18 minimum royalty payments.

19 IT IS SO ORDERED.

20
21 Dated: 9/25/07



CLAUDIA WILKEN
United States District Judge